WATER UTILITY
FINANCIAL ANALYSIS
1974

Santa Clara Valley Water District

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PROPERTY OF SANTA CLARA VALLEY
WATER DISTRICT
5750 Almaden Expressway
San Jose, California 95118

HD1695 S383A59 1974 c.2

SANTA CLARA VALLEY WATER DISTRICT

ANNUAL FINANCIAL ANALYSIS
WATER UTILITY SYSTEMS

by

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DISTRICT BOARD OF DIRECTORS

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Santa Clara Valley Water District

February 11, 1974

5750 ALMADEN EXPRESSWAY
SAN JOSE, CALIFORNIA 95118
TELEPHONE (408) 265-2600

The Board of Directors
Santa Clara Valley Water District
5750 Almaden Expressway
San Jose, California 95118

Gentlemen:

I am pleased to transmit to you the third Annual Financial Analysis of the District's Water Utility System. This report was prepared under the authority of Section 26.5 of the District Act. Its purpose is to furnish information describing the physical and financial status of the System and to present recommendations in accordance with the provisions of said Act.

Based on the results of the analyses performed, the report recommends that the District continue to levy groundwater charges on all water extracted from the groundwater basin within the District's Zones W-2, W-3.1, W-3.2 and W-3.3, during the fiscal year 1974-75. It is further recommended that the charges be continued at the present legal limit of $30.00 per acre-foot for water extracted for non-agricultural purposes and $8.00 per acre-foot for water extracted for agricultural purposes. I concur with the recommendations presented in this report.

Based on the results of this report, it is apparent that under the present water pricing policy an increase in the Basic User Charge will be necessary for the next rate period if the District is to construct those facilities necessary to distribute San Felipe water. The amount of increase for the years beyond 1980-81 is the subject of current studies relative to the San Felipe Project and will be before your Board in the near future.

Sincerely yours,

John T O'Halloran
John T. O'Halloran
General Manager

Enclosure

AN EQUAL OPPORTUNITY EMPLOYER

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INTRODUCTION

This report, the third in a series of annual reports covering the District's activities in protecting and augmenting the water supplies of the District, has been prepared as required by Section 26.5 of the District Act. The purpose of the report is to provide current information concerning the present and future water requirements of the District, the water supply available, future capital improvement and maintenance and operating requirements, together with a method of financing such requirements, and a financial analysis of the District's water utility system. The report shall also contain a recommendation as to whether or not a groundwater charge should be increased in any zone or zones of the District during the ensuing year, and a proposal for the rate of such charges, if any, for agricultural and non-agricultural water.

In this annual report the continued water expansion of District facilities through 1981 is discussed with respect to construction financing and temporary drawdown of Operating Reserves.

Summary and Recommendations

Summary and General Recommendations

1. Water Supply Requirements

Total water use in the North County has reflected the growth of the urban area. Although annual use is somewhat dependent on rainfall, as shown by the recorded use for the period 1969 through 1973 (Table 1), it is estimated that continued urban growth in the North County along with projected population increases and increased agricultural water use in the South County, will produce an average annual increase in water use of 4,000 acre-feet per year between 1974 and 2020. In order to meet this demand, the District has planned for an additional water supply from the San Felipe Project, protection of North County groundwater reserves from saltwater intrusion, and is continuing to investigate the potential for water reclamation and reuse as a supplemental supply.

2. Water Utility Financing

In accordance with the planned five-year rate period, the water charges for the next three years should remain at the same level as the past two years. During the first two years of the current rate period[1], tax revenues, basic user charges, and bond sales have generated sufficient income to maintain an adequate Operating Reserve. It is estimated that with no increase in groundwater charges, the latter three years of this rate period will require a drawdown of the reserve funds to approximately $695,000 by the end of fiscal year 1975-76.

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[1] 1971-72 to 1975-76

In order for the District to prepare to receive, transport, and treat its allocation of San Felipe water, a major internal expansion of facilities is required. Existing charges are insufficient to maintain an adequate Operating Reserve while proceeding with this expansion. Due to the District's present construction program, the proposed future system expansion, and anticipated annual revenue reimbursement delays by the Federal Government for the proposed Palo Alto Tertiary Reclamation Plant, an annual deficit is projected for this budget year and each succeeding year of the current rate period. Since the proposed construction will require that the Basic User Charge be increased to more than $30 per acre-foot beginning in 1976-77, it is recommended that legislation be introduced at this time eliminating the present legal limits on groundwater charges.

TABLE 1

RECORDED NORTH COUNTY WATER USE

FISCAL YEAR	AGRICULTURAL WATER USE			MUNICIPAL AND INDUSTRIAL WATER USE					TOTAL WATER USE
	GROUND-WATER	SURFACE WATER	TOTAL	GROUND-WATER	TREATED WATER	HETCH HETCHY AQUEDUCT DELIVERIES	OTHER SURFACE WATER*	TOTAL	
1969-70	27,752	4,889	32,641	120,458	39,157	47,203	16,647	223,465	256,106
1970-71	23,689	4,428	28,117	110,986	44,452	45,288	14,035	214,761	242,878
1971-72	24,232	4,796	29,028	133,430	48,837	49,744	10,214	242,225	271,253
1972-73	17,452	4,246	21,698	122,590	44,992	48,890	16,167	232,639	254,337

*Includes Diversion by San Jose Water Works and Surface Delivery of Untreated Municipal and Industrial Water by the District.

Projected Water Requirements & Supply

PROJECTED WATER REQUIREMENTS & SUPPLY

Projected Water Requirements and Supply

Any proposed schedule of future capital improvements for the District's Water Utility System must logically be based on an analysis of past and present water demands, a projection of the magnitude and geographical distribution of future water demands, and an analysis of the present and future sources of supply necessary to meet the overall water requirements of Santa Clara County. Such studies and analyses have been performed for the North and South County Areas and were updated this year.

The following paragraphs outline the District's water uses and its projected supply and demands.

1. Recorded and Projected Water Use - The District has compiled reasonably accurate records of the water use in the North County since 1964 when the groundwater charge was instituted. While the period of available records is relatively short, it is sufficient to indicate trends and has been used as a basis for determining unit use factors for future years. Figure 1 shows the recorded North County agricultural, non-agricultural and total water use during the period 1969-70 through 1972-73. The following is a brief discussion of the various water use components of the District.

Agricultural Water - Agricultural use of both groundwater and surface water is expected to decrease in the North

County while remaining about constant in the South County. It should be noted that recorded water use exhibits a great deal of variability since agricultural water use is extremely sensitive to both the amount and seasonal distribution of rainfall. For projection purposes the demands are based on "average" or "normal" conditions.

Non-Agricultural Groundwater - The groundwater basin continues to be the primary supply of non-agricultural water in Santa Clara County. Prior to the availability of surplus treated water, recorded usage of groundwater in the North County varied from 127,550 acre-feet in 1966-67 to 135,000 in 1968-69. Since the inception of the surplus treated water program in 1969-70, non-agricultural groundwater use has varied partially as a result of rainfall, from a low of about 110,986 acre-feet in 1970-71 to a high of 133,430 acre-feet in 1971-72, a very dry year (see Table 1). Under the District's surplus treated water program, water contractors have obtained additional treated water, over and above their contract amounts, at a substantially reduced price. Sales of surplus water amounted to approximately 20,000 acre-feet in 1970-71 and 18,489 acre-feet in 1971-72. In 1972-73, only 9,050 acre-feet of surplus water were delivered due to the abundant rainfall. Projections of future use of the groundwater basin for supplying municipal and industrial water did not consider the availability of surplus treated water because of its varying and temporary nature. Rather, it was assumed that pumping would continue at a rate of about 145,000 acre-feet per year, the approximate rate of pumping that would have occurred during the 1969-73 period had the surplus water program not been available.

Non-Agricultural Surface Water - Surface diversions of local water for non-agricultural purposes, consisting primarily of San Jose Water Works diversions in the Los Gatos Creek Watershed, were assumed to continue at an average level of 13,000 acre-feet per year based on recent recorded information.

Hetch-Hetchy Water - Deliveries of water from the City and County of San Francisco's Hetch Hetchy Aqueduct are expected to continue to increase, even though temporary reductions may be experienced by those contracting cities who also choose to contract for a supply of treated water from this District. The increases in deliveries from Hetch Hetchy were assumed to continue to increase to a maximum of 65,000 acre-feet per year by 1980, when the present contracts expire.

District Treated Water - Deliveries of District treated water are contracted for specific quantities through 1974-75 and are expected to continue to increase throughout the study period.

It must be noted here that these future water requirements are the District's present best estimates. Changing future conditions may alter the projected requirements with a resultant change in the schedule of construction of future facilities. For example, the 1970 census data indicated a reduced rate of growth in the County during the late 1960's in comparison with that experienced during the early 1960's. This fact has been considered in estimating future water demands.

2. Projected Water Demands - Figure 2 graphically shows the total North and South County Demands as projected to the year 2020 with components of Agricultural and Municipal and Industrial use. The Coyote (Mid-County) demand is projected to level off in 1995 at about 15,000 acre-feet per year while the Llagas Basin (South County) demand is projected to level off in the year 2000 at about 110,000 acre-feet per year. The North County Basin demand will continue to increase at about 4,800 acre-feet per year through 1995 after which the rate of increase is expected to gradually taper off, reaching a total estimated demand of 430,000 acre-feet per year in 2020.

3. Water Supply - Figure 3 shows the current and projected available water supply through the year 2020 assuming construction of the San Felipe Division of the Central Valley Project.

4. System Expansion - As outlined in this section of the report, the projected water requirements of the North and South County areas with respect to the available water supply establishes the need for additional supplemental water and additional facilities in the District's Water Utility System. System expansion will have to include facilities to provide storage, conservation, treatment

and distribution of local and imported water supply. While the future need for additional supplemental water has been established, the amount and pattern of demand cannot be precisely predicted. Therefore, a program has been formulated to provide maximum flexibility for accommodating variations in demands. This system expansion is presented in detail in the Annual Financial Analysis Section of this report.

Figure 1

NORTH COUNTY WATER USE AS RECORDED 1969-70 TO 1972-73

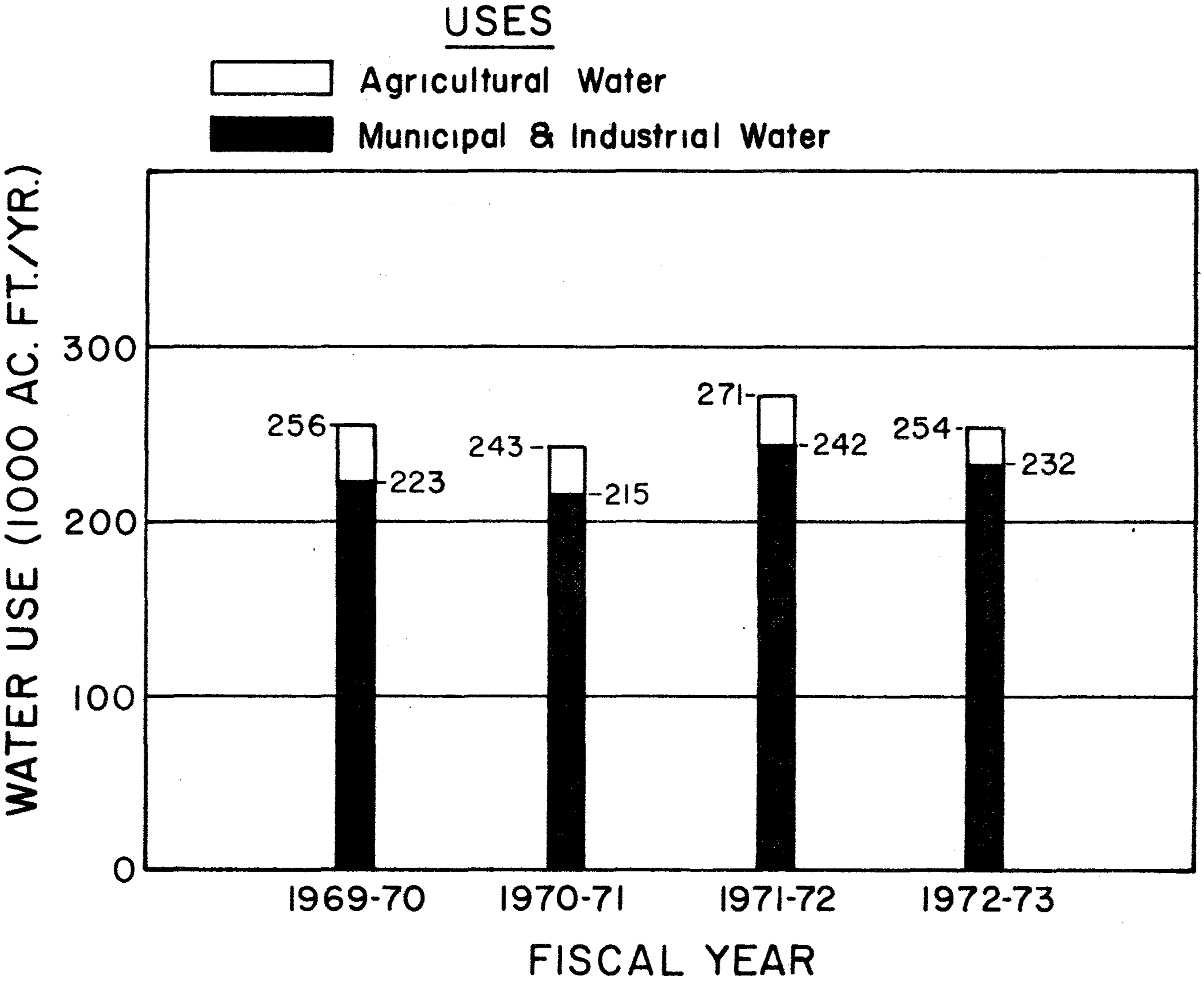


Figure 2

NORTH AND SOUTH COUNTY WATER DEMAND
AS PROJECTED
1975-2020

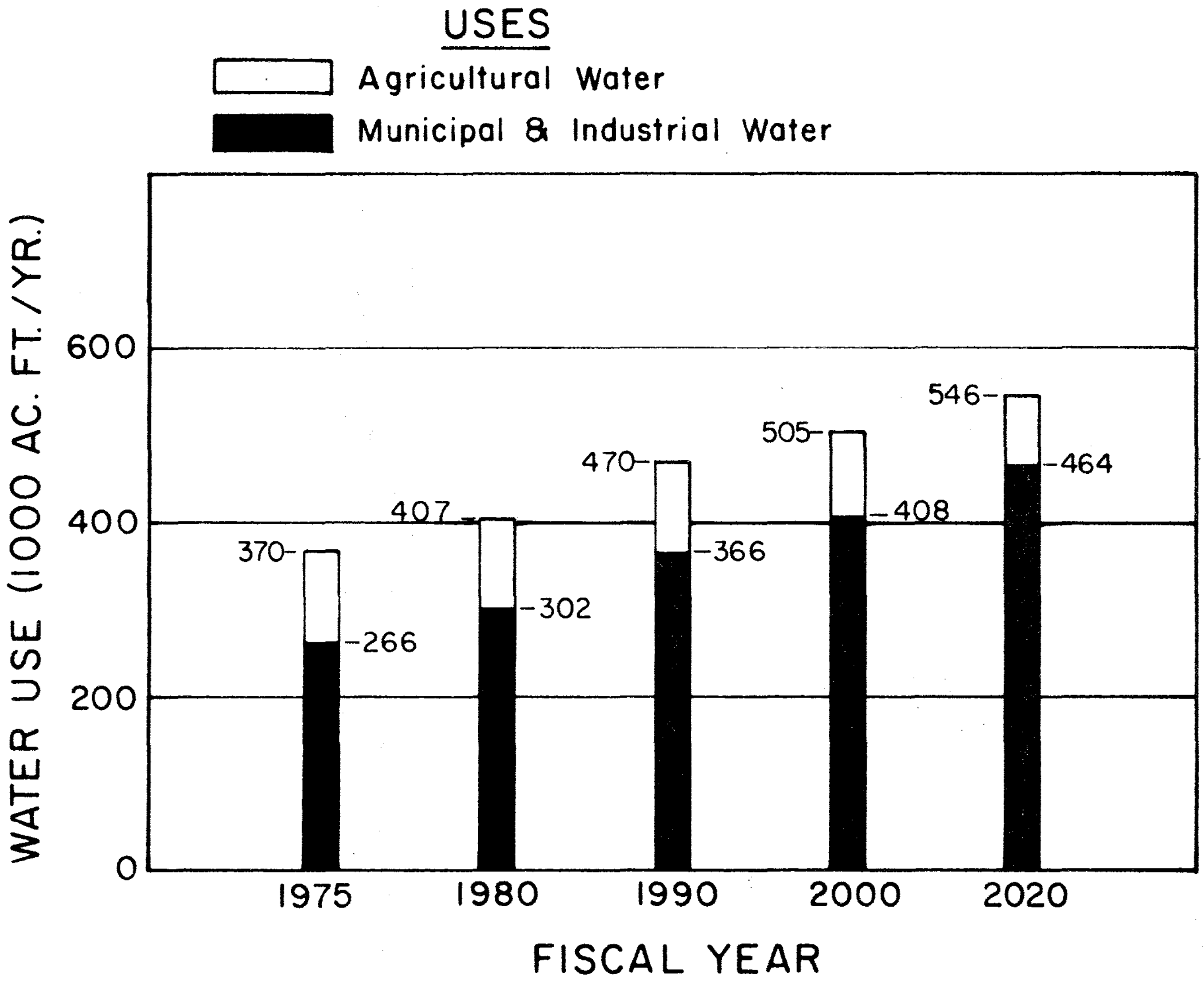
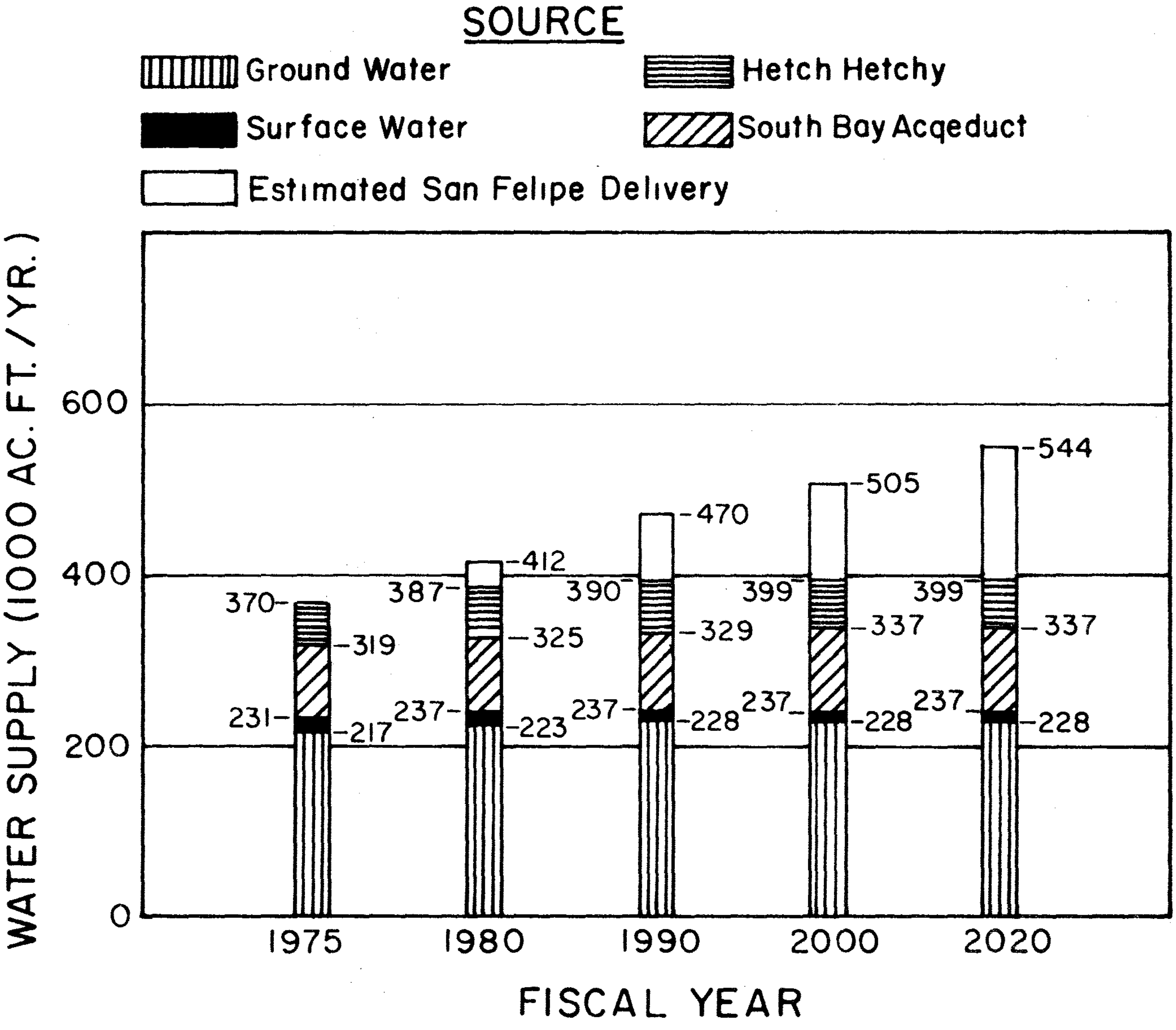


Figure 3

AVAILABLE WATER SUPPLY IN NORTH AND SOUTH COUNTY AS PROJECTED 1975–2020



Annual Financial Analysis

ANNUAL
FINANCIAL ANALYSIS

Annual Financial Analysis

1. Water Utility Income and Expenses

The District's taxing and pricing program, shown in Table 2 is designed to relate the various charges and ad valorem taxes to benefits received from the District's Water Utility System. Basically, the policy incorporates a "pooling" concept for both the water resources of the county and those local facilities required for overall water management, isolating only those costs which relate to separable benefits. This results in four water or tax rates associated with particular benefits, plus a treated water surcharge which may be changed to reflect the changing economic relationship between groundwater pumping costs and the cost of treated water.

Operation and maintenance expenses are divided into five classes or cost centers. Other expenses include the repayment of bond principal and interest (debt service) and the tax refund (In-County Credit) to those cities purchasing water from the Hetch-Hetchy Aqueduct.

A summary of the revenues and expenses of the District's Water Utility Enterprise for the past three years is shown in Table 3. Table 4 shows the anticipated expenditures and revenues for fiscal year 1973-74 by type and cost center, while Table 5 shows these anticipated expenditures and revenues in a format consistent with the District's pricing policy.

The District is presently planning an expansion of its facilities considering the U. S. Bureau of Reclamation's San Felipe Division of the Central Valley Project as a supplemental water source. In this report the first phase (through 1981) of the expansion program is presented with an analysis of revenue requirements.

2. Financial and Construction Requirements, 1973-74 to 1980-81

Table 6 lists those additional facilities which investigations have indicated will be required during the period 1973-74 through 1980-81. The tabulation also estimates the period of construction, the estimated capital cost of the facilities and the anticipated revenue source.

A major component of this construction program is a water treatment and distribution system serving the eastern part of the North County Area. This system will ultimately consist of the Penitencia Water Treatment Plant and the Evergreen Pipeline, both currently under construction, and the Evergreen Reservoir. Also included is the Milpitas Pipeline which will tie-in to a connection with the Hetch-Hetchy Aqueduct, providing for emergency water service. To meet the demands for surface delivered treated water, the purchase of lands for the development of off-stream groundwater recharge areas, and the expansion of the Rinconada Water Treatment Plant will be required. To meet the District's need for an emergency water supply, a pipeline from Vasona

Reservoir will make water available from Lexington Reservoir to the Rinconada Water Treatment Plant.

Figure 4 illustrates graphically the total estimated capital improvement expenditures that will be required annually through 1980-81 to meet the proposed construction program.

To meet this expansion program, it was assumed that the Basic User Charge would be increased to $40 per acre-foot beginning in July, 1976, while the County-wide and Service Area Tax rates, the agricultural groundwater charge, and treated water surcharge were maintained at their present level. Figure 5 graphically illustrates the operating expenditures and operating reserves through 1980-81, under the above assumption while accomplishing the construction program as outlined in Table 6. Table 7 shows the annual groundwater charge and the County-wide and Service Area Tax rates and the annual and cumulative operating reserves for the same period. As shown in this table, the Water Utility Operating Reserve is estimated to reach a low of $695,000 at the end of fiscal year 1975-76 primarily due to a continued escalation of operating costs, an estimated one year lag in reimbursement of Grant Funds ($1,000,000) from the State and Federal Governments for the proposed Palo Alto Tertiary Reclamation Plant, and low revenues from the current Basic User Charge of $30.00 per acre-foot.

The operating reserve does, however, increase again to $6,557,000 by the end of fiscal 1980-81, the end of the next rate period, if the Basic User Charge is increased to $40.00 per acre-foot. Assuming a minimum reserve of 10 percent of annual expenditures, about $5,000,000 of this reserve would be available to finance anticipated construction of facilities during the succeeding rate period. If it should be deemed to reduce the operating reserve to 10 percent of the annual expenditure by 1981-82, the Basic User Charge would be set at $35.40 per acre-foot during the rate period beginning in July, 1976. The latter course would, however, continue the period of critically low reserves through 1976-77 with recovery during 1977-78.

The annual deficit which occurs in 1980-81 is a result of initial delivery through and operation of the San Felipe Project at a projected total cost to the District of $80 per acre-foot for M&I water imported through this facility.

Of those facilities comprising the District's expansion program through 1981, only the Coyote-Alamitos Canal, the Rinconada Water Treatment Plant expansion, and the West Pipeline Reservoir are contingent on a water supply from the San Felipe Project.

TABLE 2

SUMMARY OF EXPENDITURES APPLIED TO SOURCES OF REVENUE UNDER CURRENT DISTRICT WATER UTILITY PRICING POLICY

	Sources of Revenue			
	Basic User Charge	County-Wide Tax	Service Area Tax	Flood Control Taxes
Expenditures:				
Local Facilities				
Operations & Maintenance	X			
Capital Improvements	X		X 1)	
Recreation Allocation 2)		X		
Flood Control Allocation 3)				X
Import Facilities				
Capital Facilities 4)		X		
Operations and Maintenance	X			
Water Purchases 5)	X			
Basin Replenishment 6)			X	

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1) Limited to allocated cost of excess capacity
2) Reservoirs and certain percolation facilities
3) Reservoirs
4) Includes capital payments for South Bay Aqueduct, San Felipe Project (Future), and Tax Rebate for Hetch-Hetchy water users.
5) South Bay Aqueduct and San Felipe Project (Future) Imported Water Charges
6) Includes Delta Water Charge and Variable O&M costs only

TABLE 3

SUMMARY OF REVENUES AND EXPENDITURES
1970-71 through 1972-73

	1970-71	1971-72	1972-73
I. Revenues:			
Water Charges:			
Groundwater	$ 3,788,000	$ 4,010,000	$ 4,465,000
Surface Water	107,000	124,000	126,000
Treated Water	2,291,000	2,614,000	2,565,000
TOTAL	6,186,000	6,748,000	7,156,000
Non-Operating Revenues:			
Taxes	1,873,000	2,426,000	2,765,000
Interest on Investment	327,000	324,000	814,000
Other	70,000	131,000	158,000
TOTAL	2,270,000	2,881,000	3,737,000
TOTAL REVENUES	$ 8,456,000	$ 9,629,000	$10,893,000
II. Expenses:			
Operating Expenses:			
Source of Supply	$ 2,768,000	$ 3,372,000	$ 3,822,000
Raw Water T & D	830,000	1,161,000	1,253,000
Water Treatment	829,000	1,031,000	1,035,000
Treated Water T & D	230,000	461,000	229,000
General & Admin.	400,000	520,000	501,000
TOTAL	5,057,000	6,545,000	6,840,000
Non-Operating Expenses:			
Debt Service	2,155,000	2,488,000	2,168,000
In-County Credit	255,000	279,000	356,000
TOTAL	2,410,000	2,767,000	2,524,000
TOTAL EXPENSES	$ 7,467,000	$ 9,312,000	$ 9,364,000
Net Annual Surplus	$ 989,000	$ 317,000	$ 1,529,000

TABLE 4

SUMMARY OF ANTICIPATED REVENUES AND EXPENDITURES
1973-74

I.	Revenues:	
	Water Charges:	
	Groundwater	$ 4,180,000
	Surface Water	130,600
	Treated Water	3,054,000
	TOTAL	7,364,600
	Non-Operating Revenues:	
	Taxes	2,846,957
	Interest on Investments	524,000
	Other	114,426
	TOTAL	3,485,383
	TOTAL REVENUES	$ 10,849,983
II.	Expenses:	
	Operating Expenses:	
	Source of Supply	$ 3,717,108
	Raw Water T & D	2,093,339
	Water Treatment Plant	1,375,565
	Treated Water T & D	336,430
	General and Admin.	641,202
	TOTAL	8,163,644
	Non-Operating Expenses:	
	Debt Service	2,510,282
	In-County Credit	376,416
	TOTAL	2,886,698
	TOTAL EXPENSES	$ 11,050,342
	Net Annual Deficit	($ 200,359)

TABLE 5

SUMMARY OF ANTICIPATED REVENUE AND EXPENDITURES 1)
(IN ACCORDANCE WITH DISTRICT PRICING POLICY)
1973-74

	Basic User Charge	County Wide Tax	Service Area Tax	Flood Control Taxes	Total
Revenue					
Treated Water Surcharge	1,358,000	-	-	-	
Basic User Charge	5,652,000	-	-	-	
County Wide Tax	-	2,284,000	-	-	
Service Area Tax	-	-	530,000	-	
Flood Control Taxes	-	-	-	22,000 2)	
Other Revenue 3)	1,004,000	-	-	-	
Total Revenue	8,014,000	2,284,000	530,000	22,000	10,850,000
Expenditures					
Local Facilities					
Operations & Maintenance	4,970,000	-	-	-	
Capital Improvements	1,970,000	-	444,000	-	
Recreation Allocation	-	45,000	-	-	
Flood Control Allocation	-	-	-	22,000 2)	
Import Facilities					
Hetch Hetchy Rebate (In County Credit)	-	376,000	-	-	
South Bay Aqueduct					
Capital Payments	-	1,718,000	-	-	
Operations & Maintenance	495,000	-	-	-	
Water Purchases	605,000	-	-	-	
Basin Replenishment	-	-	405,000	-	
Total Expenditures	8,040,000	2,139,000	849,000	22,000	11,050,000
Net Annual Surplus or Deficit	(26,000)	145,000	(319,000)	-0-	(200,000)

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1) Monies from bond funds have not been included in this summary.

2) The allocation of flood control revenue and/or expenditures by flood control zones are: Northwest - $1,000; Central - $9,000; East - $12,000.

3) Includes revenue from agricultural groundwater and surface water, investments, treated water surcharge on surplus treated water, Zone W-3 taxes, and other miscellaneous sources.

TABLE 6

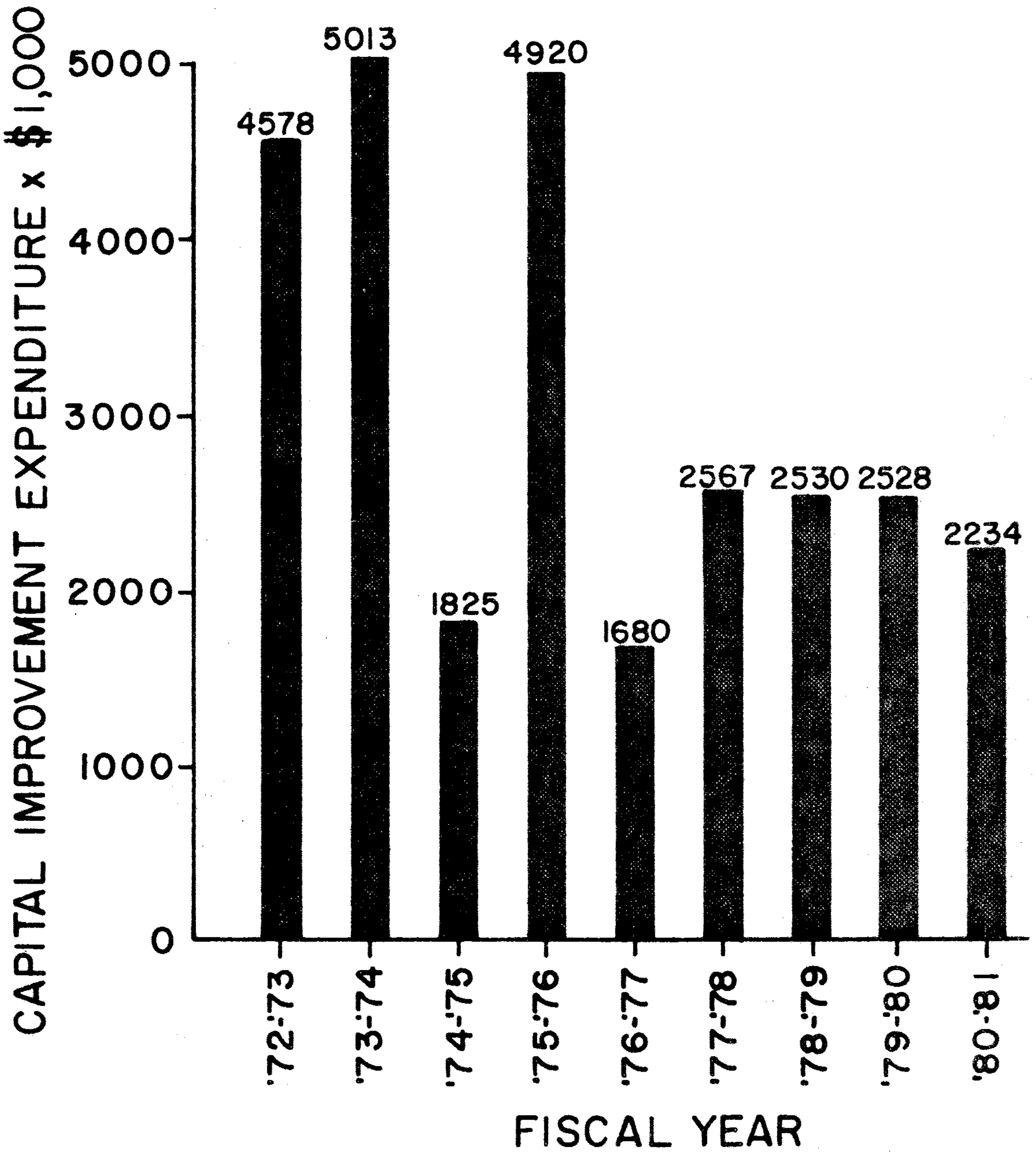
SUMMARY OF CAPITAL IMPROVEMENTS
1972-73 through 1980-81

Project	Land Acquisition Design & Construction Period	Project Estimated Capital Cost	Revenue Source
Penitencia Water Treatment Plant (20 MGD)	1972-73 through 1974-75	$ 5,271,000	Bonds
Evergreen Pipeline	1972-73 through 1974-75	3,771,000	Bonds
Evergreen Reservoir	1972-73 through 1977-78	1,777,000	Bonds
West No. County Percolation Pond (McClellan Road)	1973-74 through 1975-76	597,000	Operating Reserves
Hetch-Hetchy Connection (Contribution to San Jose Line)	1974-75 through 1975-76	125,000	Operating Reserves
Evergreen Pipeline Extension (1.6 miles)	1974-75 through 1977-78	1,005,000	Operating Reserves
South County Streambed Percolation Pipeline and Appurtenances Improvements (Madronne Channel)	1974-75 through 1978-79	400,000	Operating Reserves
No. Central County Additional Percolation Ponds (16 ac. total land)	1974-75 through 1980-81	2,125,000 ($1,600,000 est. land costs)	Oper. Res. - $800 K Bonds - $1,325 K
Mountain View Distributary	1975-76 through 1976-77	660,000	Operating Reserves
Rinconada Emergency Water Supply from Lexington Res.	1975-76 through 1976-77	1,450,000	Operating Reserves
Coyote-Alamitos Canal	1977-78 through 1980-81	5,000,000	Bonds
Milpitas Pipeline	1978-79 through 1980-81	1,200,000	Bonds
West Pipeline Reservoir (Peaking Tanks)	1980-81 through 1982-83	2,231,000	Bonds
Rinconada Water Treatment Plant 10 MGD Expansion	1980-81 through 1982-83	2,238,000	Bonds
Palo Alto Reclamation Plant	1973-74 throught 1975-76	2,260,000	Grant
	Total Project Costs	$30,110,000	

NOTE: All costs adjusted to date of construction based on an escalation rate of 5% per year.

Figure 4

CAPITAL IMPROVEMENT EXPENDITURES NEW & EXPANDED FACILITIES 1972-1981



OPERATING EXPENDITURES & OPERATING RESERVES

1974-75 to 1981-82

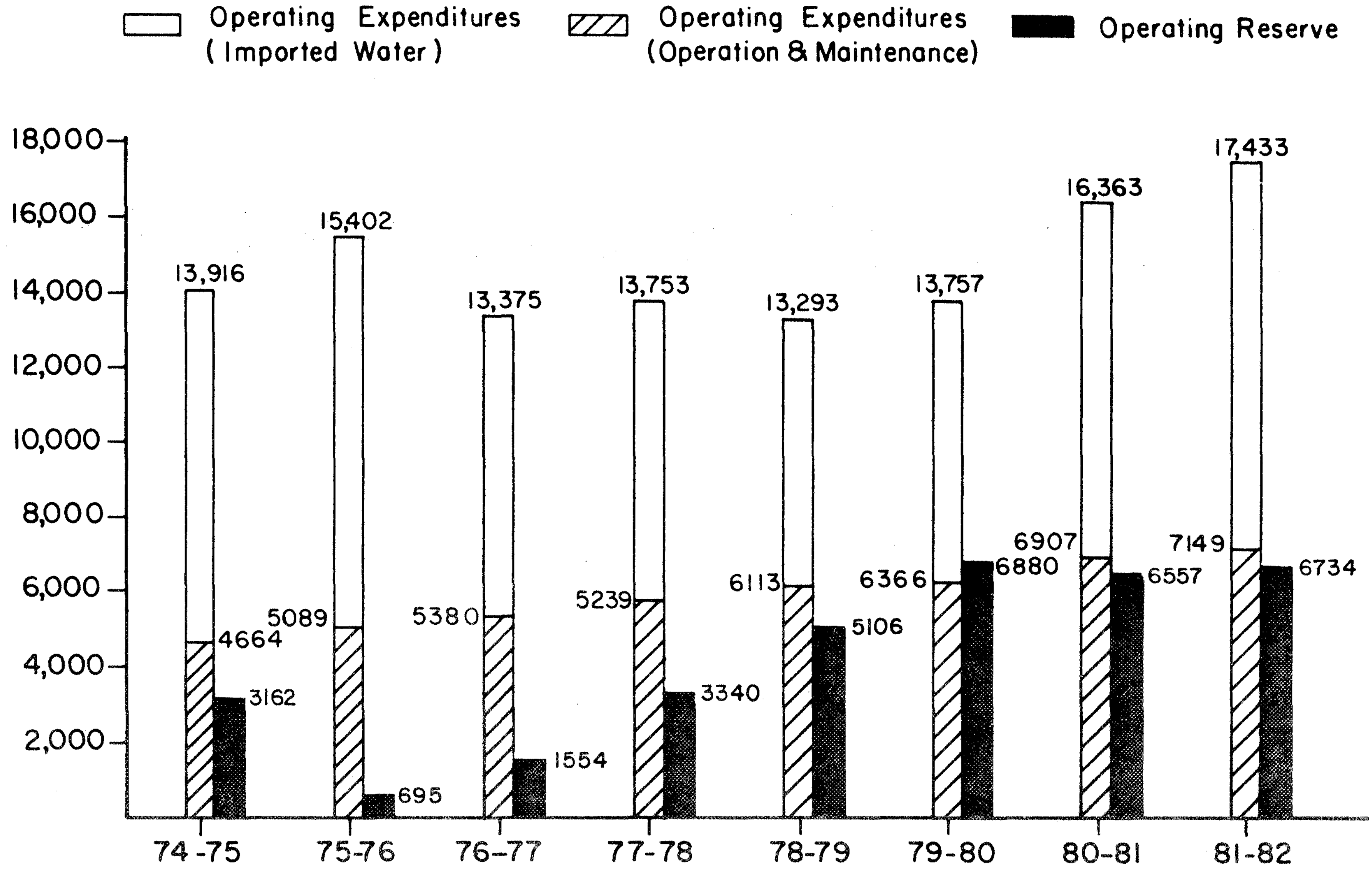


Figure 5

NOTE: (1) Operating Expenditure Includes South Bay Aqueduct, San Felipe Import Water Cost, Hetch Hetchy Rebate, Local Facilities, Operation and Administration costs.

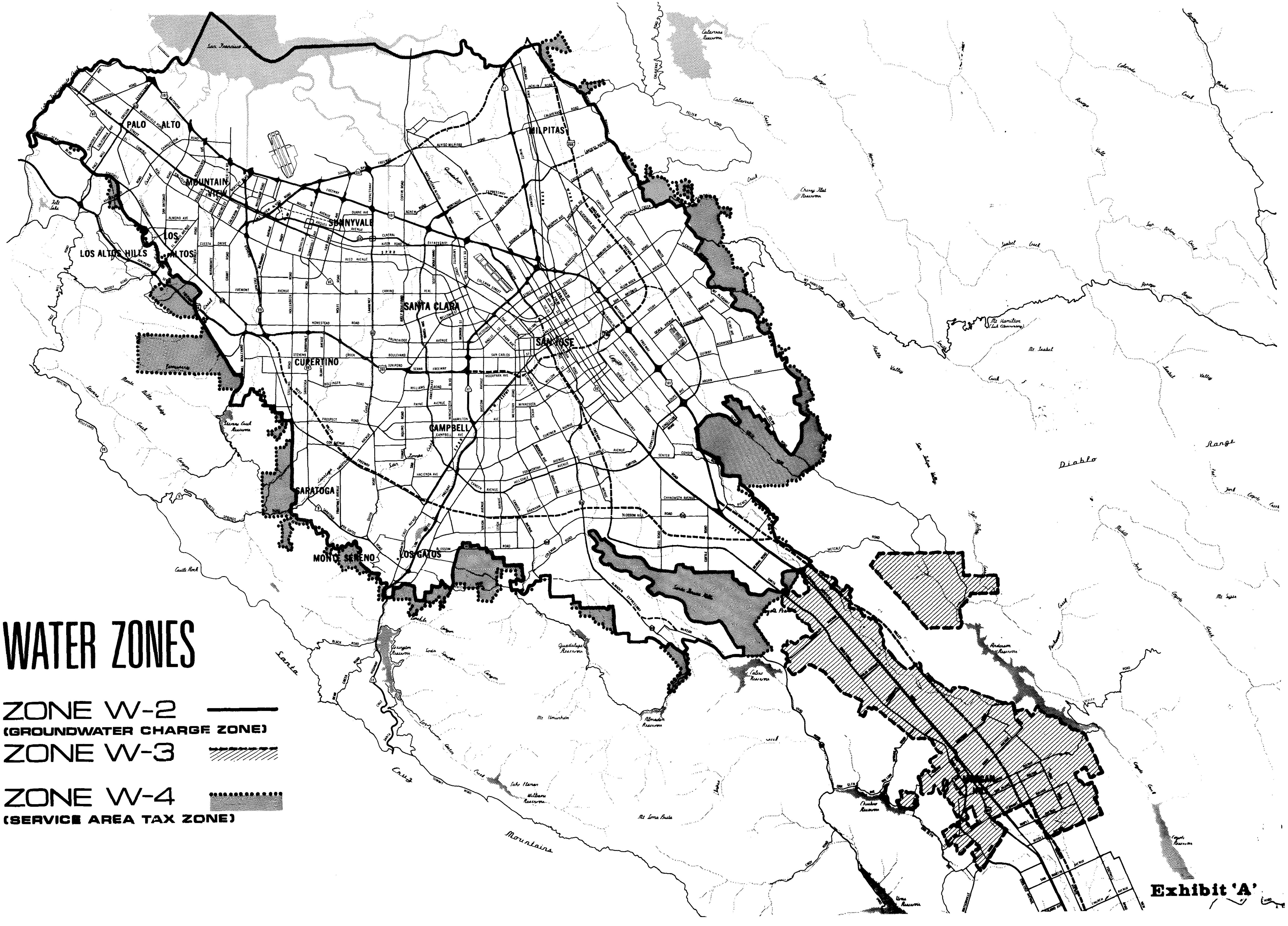
(2) Above Figure is based on San Felipe Water @ $80 per acre foot.

TABLE 7

SUMMARY OF RECOMMENDED TAX RATES, WATER CHARGES AND RESERVE BALANCE

Year	County-Wide Tax ($/$100)	Service Area Tax ($/$100)	Basic User Charge ($/A-F)	Flood Control Zone Taxes			Annual Operating Reserve ($ x 1000)	Cumulative Operating Reserve ($ x 1000)
				NW Zone ($/$100)	C Zone ($/$100)	E Zone ($/$100)		
1971-72	.0670*	.0170*	30.00*	.0002	.0023	.0027	317	3,750
1972-73	.0690*	.0170*	30.00*	.0002	.0041	.0030	1,592	5,342
1973-74	.0690*	.0170*	30.00*	.0001	.0008	.0022	-210	5,132
1974-75	.0690	.0170	30.00	.0004	.0015	.0037	-1,970	3,162
1975-76	.0690	.0170	30.00	.0003	.0015	.0021	-2,467	695
5-Year Average	.0686	.0170	30.00	.0002	.0020	.0027		
1976-77	.0690	.0170	40.00	.0005	.0015	.0022	849	1,544
1977-78	.0690	.0170	40.00	.0004	.0014	.0020	1,796	3,340
1978-79	.0690	.0170	40.00	.0004	.0013	.0019	1,766	5,106
1979-80	.0690	.0170	40.00	.0004	.0013	.0010	1,774	6,880
1980-81	.0690	.0170	40.00	.0004	.0013	.0011	-323	6,557
5-Year Average	.0690	.0170	40.00	.0004	.0014	.0016		

* Actual Rates

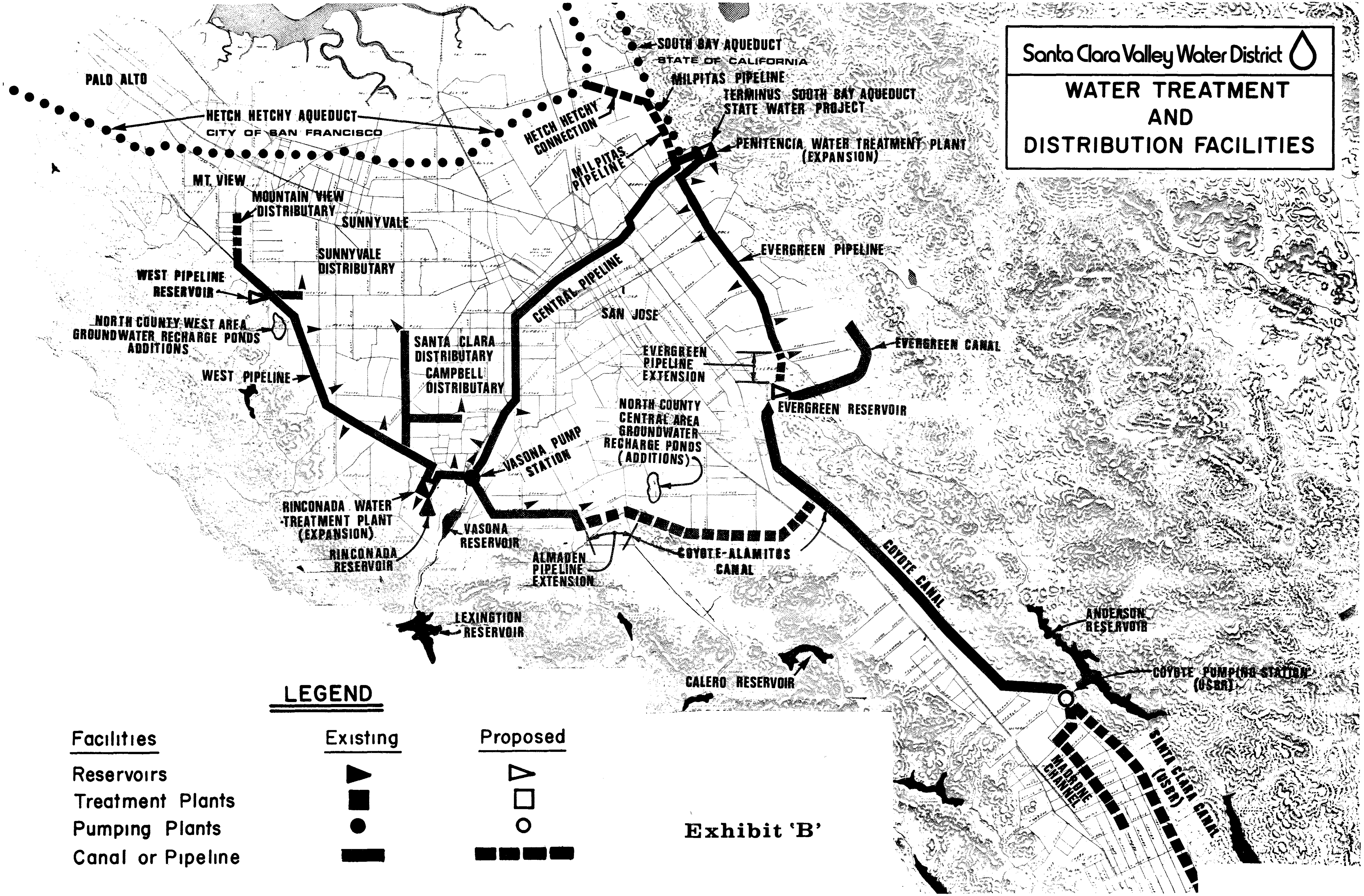


WATER ZONES

Exhibit 'A'

Santa Clara Valley Water District

WATER TREATMENT AND DISTRIBUTION FACILITIES



LEGEND

Facilities	Existing	Proposed
Reservoirs	▶	▷
Treatment Plants	■	□
Pumping Plants	●	○
Canal or Pipeline	▬	▬ ▬ ▬ ▬

Exhibit 'B'